



CPAs & BUSINESS ADVISORS

SENATE APPROPRIATIONS COMMITTEE

House Bill 1012, Fair Rental Value

HISTORICAL PROPERTY RATE SETTING

- Current property rates are set based on accounting standards
 - reporting of depreciation on allowable capital assets and interest on related debt financing
 - building and fixed equipment capital assets are subject to a per bed maximum allowable cost which limits what a facility can invest
 - Depreciation on capital assets is calculated based on a straight-line method over an estimated useful life set based on AHA guidelines
 - Interest expense is based on the payment terms of the allowable debt and includes the amortization of debt financing costs
 - The allowable depreciation and interest are divided by actual cost report year resident days or 90% occupancy days, whichever is higher, to get to the rate per day
 - $(\$500,000 \text{ of depreciation} + \$400,000 \text{ of interest expense}) \text{ divided by } 25,000 \text{ days} = \36 rate per day

HISTORICAL PROPERTY RATE SETTING

- Current system provides for high rates in the earlier years after a major project, and decreasing rates as it ages due to short lives of some assets
- Current system only repays facilities for cost of capital projects over future years which discourages renovations as it will always require debt
- Current system does not provide funding to build reserves for future projects which leads to large projects having to be funded with debt which increases overall cost

PROPOSED FAIR RENTAL VALUE (FRV)

- Property rate would be based on a % return of the fair value of all allowable capital assets to determine the Fair Rent
- Capital asset Fair Value will still be subject to a per bed limit that is based on RS Means cost per square foot multiplied by an allowable square footage per bed license (entire facility space)
- Equipment is limited to \$15,000 per bed license and land and land improvements are limited to 10% of the building limits
- FRV is adjusted annually for depreciation, changes in the effective age and an inflation factor
- Effective age increases annually, but can be decreased by capital renovations made which encourages ongoing maintenance
- The Fair Rent is then divided by actual cost report year days or 90% occupancy days, whichever is higher, to get to the rate per day

PROPOSED FAIR RENTAL VALUE (FRV)

- FRV will provide a more stable property rate
 - Early year rates will not be as high as current system, estimated cap is \$62.14 vs \$86 currently the high rate
 - Rate will remain stable over time as long as the facility maintains the buildings
- FRV will provide revenue streams that will help facilities reserve for future projects and encourages renovations over time without having to utilize debt to fund the entire project
- See Attachment 3 for calculation examples of new projects

FRV FOUR YEAR PHASE IN

- 71 facilities are estimated to see an increase in their property rates due to the transition from historical property rate setting to FRV
- These 71 facilities will see an average estimated impact of \$7 per day increase in total on their rates that will increase the estimated Medicaid spending by \$8,619,000
- FRV proposed rate setting will phase this increase in over 4 years at an estimated cost of \$2,155,000 in each of the fiscal years 2023-2026
- Information is included as Attachment 1

FRV HOLD HARMLESS

- 8 existing facilities are estimated to have property rates as set under the current property rate rules that will exceed the 1/1/23 FRV rates based on 2020 rate data
- The Medicaid cost for these facilities is already included in the current DHS budget, there is no new money needed to keep them under the current property rate system
- If these 8 facilities were forced to move their rates down to FRV on 1/1/23, it would reduce revenues to them by an estimated \$1,500,000 based on the estimated FRV vs current 2021 property rates, this could lead to debt obligation issues
- Of these 8, 3 are estimate to transition to FRV in year 1 with all but 1 transitioning by year 8
- Missouri Slope will be new in 2021 and is not expected to transition to FRV as the interest rate on the debt is too high
- See information provided in Attachment 2 and 3

QUESTIONS?

Thank you for the opportunity to share this information with you.

Bradley W DeJong, CPA

Partner, Director of Senior Living Services

Eide Bailly LLP

Fargo, ND

Facility Name	2019 Licensed Beds Per Survey or Otherwise 2018 Beds per State	2020 Census	Lower Of Actual or Maximum Sq Feet Per Bed	FRV/PPD adjusted for 90% occupancy (fair rent/patient days)	Current Property Rate per Day	Difference per Day	Increase Rate change Medicaid Impact	Property Rate Increases Capped at 25%	Annual Impact
Aneta Parkview Health Center	39	12,604	600.00	\$ 30.59	\$ 25.88	\$ 4.71	\$ 51,739	\$ 1.18	\$ 12,935
Ashley Medical Center	40	10,884	421.13	\$ 16.58	\$ 10.44	\$ 6.14	\$ 45,558	\$ 1.54	\$ 11,990
Augusta Place - a Prospera Commur	48	17,332	848.19	\$ 48.05	\$ 44.95	\$ 3.10	\$ 31,714	\$ 0.78	\$ 7,929
Ave Maria Village	100	35,494	588.85	\$ 27.83	\$ 22.68	\$ 5.15	\$ 100,360	\$ 1.29	\$ 25,090
Baptist Health Care Center	140	50,517	950.00	\$ 50.51	\$ 38.88	\$ 11.63	\$ 324,039	\$ 2.91	\$ 81,010
Benedictine Living Center of Garriso	52	18,262	388.65	\$ 16.91	\$ 16.34	\$ 0.57	\$ 5,246	\$ 0.14	\$ 1,311
Bethany on 42nd	116	42,053	950.00	\$ 55.89	\$ 46.52	\$ 9.37	\$ 209,355	\$ 2.34	\$ 52,339
Bethany on University	172	60,599	891.84	\$ 51.62	\$ 41.32	\$ 10.30	\$ 238,460	\$ 2.58	\$ 59,615
Bethel Lutheran Nursing & Rehabilitt	150	42,625	600.00	\$ 22.85	\$ 10.58	\$ 12.27	\$ 281,841	\$ 3.07	\$ 70,460
Dunseith Community Nursing Home	30	9,218	730.53	\$ 22.79	\$ 8.46	\$ 14.33	\$ 126,587	\$ 3.58	\$ 31,647
Elm Care Center	136	40,873	600.00	\$ 22.85	\$ 11.07	\$ 11.78	\$ 201,302	\$ 2.94	\$ 50,325
Elm Crest Manor	68	24,543	950.00	\$ 43.47	\$ 21.09	\$ 22.38	\$ 296,482	\$ 5.60	\$ 74,121
Eventide Heartland	82	28,561	600.00	\$ 33.25	\$ 29.67	\$ 3.58	\$ 62,096	\$ 0.90	\$ 15,524
Eventide Jamestown	115	35,832	600.00	\$ 30.59	\$ 22.41	\$ 8.18	\$ 177,334	\$ 2.04	\$ 44,334
Fargo Nursing and Rehab Center, LL	110	23,989	700.00	\$ 34.46	\$ 33.59	\$ 0.87	\$ 12,147	\$ 0.22	\$ 3,037
Four Seasons Health Care Center	37	12,421	690.51	\$ 29.77	\$ 19.77	\$ 10.00	\$ 62,830	\$ 2.50	\$ 15,707
Garrison Memorial Hospital Nursing	28	8,064	291.96	\$ 12.06	\$ 10.86	\$ 1.20	\$ 5,953	\$ 0.30	\$ 1,488
Golden Acres Manor	64	21,959	502.25	\$ 15.44	\$ 8.17	\$ 7.27	\$ 88,342	\$ 1.82	\$ 22,086
Good Samaritan Society Bottineau	52	15,037	826.69	\$ 30.79	\$ 13.43	\$ 17.36	\$ 136,549	\$ 4.34	\$ 34,137
Eventide Devils Lake Care Center	48	16,573	600.00	\$ 14.38	\$ 6.64	\$ 7.74	\$ 88,146	\$ 1.93	\$ 22,037
Good Samaritan Society Lakota	38	11,959	812.32	\$ 30.29	\$ 14.73	\$ 15.56	\$ 123,747	\$ 3.89	\$ 30,937
Good Samaritan Society Larimore	42	13,310	667.07	\$ 29.46	\$ 17.24	\$ 12.22	\$ 67,782	\$ 3.05	\$ 16,946
Good Samaritan Society Mohall	57	16,703	597.12	\$ 26.60	\$ 17.14	\$ 9.46	\$ 88,009	\$ 2.37	\$ 22,002
Good Samaritan Society Mott	42	13,543	654.50	\$ 24.76	\$ 14.26	\$ 10.50	\$ 78,455	\$ 2.62	\$ 19,614
Good Samaritan Society Oakes	59	19,173	716.51	\$ 26.93	\$ 12.52	\$ 14.41	\$ 151,489	\$ 3.60	\$ 37,872
Good Samaritan Society Park River	54	17,272	522.91	\$ 20.15	\$ 14.77	\$ 5.38	\$ 45,066	\$ 1.34	\$ 11,266
Griggs County Care Center	44	13,390	600.00	\$ 30.59	\$ 26.22	\$ 4.37	\$ 35,150	\$ 1.09	\$ 8,787
Heart of America Care Center	55	16,943	600.00	\$ 26.72	\$ 19.71	\$ 7.01	\$ 67,297	\$ 1.75	\$ 16,824
Hill Top Home of Comfort	58	20,474	559.91	\$ 23.34	\$ 19.09	\$ 4.25	\$ 48,724	\$ 1.06	\$ 12,181
Knife River Care Center	86	30,888	702.29	\$ 32.35	\$ 29.68	\$ 2.67	\$ 52,549	\$ 0.67	\$ 13,137
Luther Memorial Home	99	30,694	600.00	\$ 18.98	\$ 7.85	\$ 11.13	\$ 153,425	\$ 2.78	\$ 38,356
Lutheran Home of the Good Shephe	75	20,152	533.33	\$ 27.47	\$ 25.19	\$ 2.28	\$ 22,090	\$ 0.57	\$ 5,523
Lutheran Sunset Home	91	31,344	614.45	\$ 22.27	\$ 11.25	\$ 11.02	\$ 178,033	\$ 2.76	\$ 44,508

Maple Manor Care Center	63	16,102	800.00	\$	44.16	\$	41.53	\$	2.63	\$	20,028	\$	0.66	\$	5,007
Marian Manor Healthcare Center	72	23,307	822.83	\$	25.49	\$	9.59	\$	15.90	\$	205,823	\$	3.97	\$	51,456
Marvhill Manor	48	15,672	676.29	\$	34.15	\$	23.41	\$	10.74	\$	109,634	\$	2.69	\$	27,408
Missouri Slope Lutheran Care Centre	250	84,253	675.94	\$	33.27	\$	20.98	\$	12.29	\$	585,208	\$	3.07	\$	146,302
Mountrail Bethel Home	48	10,681	600.00	\$	30.59	\$	22.36	\$	8.23	\$	29,527	\$	2.06	\$	7,382
Napoleon Care Center	36	11,249	641.72	\$	32.54	\$	29.04	\$	3.50	\$	20,019	\$	0.87	\$	5,005
Nelson County Health System Care (39	17,388	513.21	\$	15.74	\$	8.36	\$	7.38	\$	60,399	\$	1.84	\$	15,100
North Dakota Veterans Home	52	17,540	700.00	\$	33.56	\$	31.64	\$	1.92	\$	14,495	\$	0.48	\$	3,624
Northwood Deaconess Health Centri	45	13,566	600.00	\$	30.59	\$	22.55	\$	8.04	\$	62,110	\$	2.01	\$	15,527
Parkside Lutheran Home	38	12,742	881.34	\$	42.84	\$	21.24	\$	21.60	\$	148,747	\$	5.40	\$	37,187
Prince of Peace Care Center	53	12,910	457.36	\$	11.78	\$	6.50	\$	5.28	\$	44,613	\$	1.32	\$	11,153
Rolette Community Care Center	40	14,092	800.00	\$	46.63	\$	43.39	\$	3.24	\$	39,843	\$	0.81	\$	9,961
Rosewood on Broadway	125	43,152	786.24	\$	42.10	\$	37.88	\$	4.22	\$	92,978	\$	1.06	\$	23,245
Sanford Hillsboro	30	10,915	691.47	\$	39.43	\$	39.00	\$	0.43	\$	3,258	\$	0.11	\$	814
Sheyenne Care Center	170	48,628	807.52	\$	40.28	\$	27.76	\$	12.52	\$	400,220	\$	3.13	\$	100,055
Sheyenne Crossings Care Center/TC	64	22,510	700.00	\$	37.09	\$	36.47	\$	0.62	\$	4,355	\$	0.16	\$	1,089
Souris Valley Care Center	50	14,377	417.28	\$	16.45	\$	10.41	\$	6.04	\$	47,818	\$	1.51	\$	11,955
Southwest Healthcare Services	40	12,962	600.00	\$	30.59	\$	20.34	\$	10.25	\$	72,651	\$	2.56	\$	18,163
St Vincent's - a Prospera Communit	101	36,141	762.68	\$	30.63	\$	16.89	\$	13.74	\$	287,690	\$	3.44	\$	71,923
St. Aloisius Medical Center	80	25,038	786.11	\$	44.24	\$	38.94	\$	5.30	\$	85,351	\$	1.32	\$	21,338
St. Benedict's Health Center	124	40,005	529.27	\$	20.37	\$	10.49	\$	9.88	\$	209,721	\$	2.47	\$	52,430
St. Catherine's Living Center	52	16,565	766.77	\$	38.38	\$	20.43	\$	17.95	\$	161,477	\$	4.49	\$	40,369
St. Gerard's Nursing Home	35	11,172	950.00	\$	36.86	\$	10.43	\$	26.43	\$	139,888	\$	6.61	\$	34,972
St. Luke's Home	88	30,805	950.00	\$	57.88	\$	47.29	\$	10.59	\$	162,301	\$	2.65	\$	40,575
St. Luke's Sunrise Care Center	40	11,435	600.00	\$	26.72	\$	15.06	\$	11.66	\$	50,526	\$	2.91	\$	12,631
St. Rose Care Center	44	13,758	410.84	\$	10.69	\$	6.43	\$	4.26	\$	28,337	\$	1.07	\$	7,084
Strasburg Nursing Home	55	17,924	754.00	\$	23.48	\$	7.37	\$	16.11	\$	191,537	\$	4.03	\$	47,884
Sunset Drive - a Prospera Communit	128	44,785	633.05	\$	30.17	\$	25.20	\$	4.97	\$	144,758	\$	1.24	\$	36,189
Tioga Medical Center LTC	30	9,380	417.03	\$	22.04	\$	22.03	\$	0.01	\$	132	\$	0.00	\$	33
Towner County LivingCenter	30	9,837	600.00	\$	30.59	\$	24.35	\$	6.24	\$	21,848	\$	1.56	\$	5,462
Tri-County Retirement and Nursing	39	12,991	950.00	\$	48.07	\$	21.05	\$	27.02	\$	184,594	\$	6.76	\$	46,148
Trinity Homes	230	69,416	811.07	\$	30.24	\$	12.23	\$	18.01	\$	300,091	\$	4.50	\$	200,023
Villa Maria Health Care	120	43,701	632.32	\$	25.62	\$	15.92	\$	9.70	\$	228,689	\$	2.43	\$	57,172
Wedgewood Manor	50	13,619	600.00	\$	22.85	\$	12.31	\$	10.54	\$	70,421	\$	2.63	\$	17,605
Western Horizons Care Center	45	14,732	592.38	\$	22.58	\$	10.45	\$	12.13	\$	112,389	\$	3.03	\$	28,097
Wishek Living Center	60	18,784	600.00	\$	18.98	\$	7.72	\$	11.26	\$	99,019	\$	2.81	\$	24,755
Woodside Village	138	48,887	674.29	\$	35.57	\$	34.61	\$	0.96	\$	21,549	\$	0.24	\$	5,387
	<u>5,891</u>	<u>1,897,153</u>		<u>\$</u>	<u>33.08</u>	<u>\$</u>	<u>25.64</u>	<u>\$</u>	<u>7.44</u>	<u>\$</u>	<u>8,619,942</u>	<u>\$</u>	<u>2.154,985</u>		

Estimated New Project with Full Replacement of a 100 Bed Facility

2.5% Project Loan at 100% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	53.71	53.71
2	53.20	53.20
3	52.05	52.05
4	51.51	51.51
5	48.32	48.32
6	47.76	47.76
7	47.18	47.18
8	46.58	46.58
9	45.97	45.97
10	39.47	41.58
11	38.83	41.58
12	38.17	41.58
13	37.50	41.58
14	36.81	41.58
15	36.14	41.58

2.5% Project Loan at 95% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	52.66	52.66
2	52.17	52.17
3	51.05	51.05
4	50.53	50.53
5	47.38	47.38
6	47.19	47.19
7	46.84	46.84
8	46.29	46.29
9	45.72	45.72
10	45.14	45.14
11	38.67	41.58
12	38.06	41.58
13	37.44	41.58
14	36.80	41.58
15	36.14	41.58

5% Project Loan at 100% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	75.94	75.94
2	74.59	74.59
3	73.24	73.24
4	72.48	72.48
5	69.04	69.04
6	68.20	68.20
7	67.31	67.31
8	66.37	66.37
9	65.39	65.39
10	61.76	61.76
11	61.91	61.91
12	62.03	62.03
13	62.13	62.13
14	61.12	61.12
15	60.84	60.84

5% Project Loan at 95% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	73.78	73.78
2	73.15	73.15
3	72.50	72.50
4	71.18	71.18
5	70.45	70.45
6	67.06	67.06
7	66.25	66.25
8	65.41	65.41
9	64.52	64.52
10	63.59	63.59
11	61.76	61.76
12	61.91	61.91
13	62.03	62.03
14	61.12	61.12
15	60.84	60.84

6.5% Project Loan at 100% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	89.03	89.03
2	88.38	88.38
3	87.68	87.68
4	86.31	86.31
5	85.52	85.52
6	82.04	82.04
7	81.14	81.14
8	80.17	80.17
9	79.15	79.15
10	78.05	78.05
11	71.01	71.01
12	69.76	69.76
13	68.43	68.43
14	67.01	67.01
15	65.49	65.49

6.5% Project Loan at 95% of Cost

Year	Historical Rate Calculation Estimate	Fair Rental Value Rate Calculation Estimate
1	86.21	86.21
2	85.59	85.59
3	84.93	84.93
4	83.60	83.60
5	82.84	82.84
6	79.41	79.41
7	78.55	78.55
8	77.63	77.63
9	76.66	76.66
10	75.62	75.62
11	68.63	68.63
12	67.45	67.45
13	66.18	66.18
14	64.83	64.83
15	63.51	63.51

- assumes zero new capital expenditure for both sides of the calculation

Specific Facility Hold harmless Estimates

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	\$ 109.42	\$ 62.43	Estimate	Estimate
2	109.28	62.49	Calculation	Calculation
3	108.67	62.54	Rate Calculation	Rate Calculation
4	107.12	62.55	Historical Rate	Historical Rate
5	106.43	62.54	Calculation	Calculation
6	101.93	62.51	Rate Calculation	Rate Calculation
7	101.14	62.45	Historical Rate	Historical Rate
8	100.30	62.37	Calculation	Calculation
9	99.40	62.25	Rate Calculation	Rate Calculation
10	98.43	62.11	Historical Rate	Historical Rate
11	89.72	61.93	Calculation	Calculation
12	88.62	61.73	Rate Calculation	Rate Calculation
13	87.45	61.49	Historical Rate	Historical Rate
14	86.20	61.21	Calculation	Calculation
15	81.87	60.96	Rate Calculation	Rate Calculation

Missouri Slope, 6.625% Int Rate

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	\$ 61.71	\$ 36.04	Estimate	Estimate
2	60.77	36.00	Calculation	Calculation
3	60.04	35.95	Rate Calculation	Rate Calculation
4	59.29	35.88	Historical Rate	Historical Rate
5	58.17	35.79	Calculation	Calculation
6	37.93	35.69	Rate Calculation	Rate Calculation
7	37.09	35.57	Historical Rate	Historical Rate
8	34.53	35.26	Calculation	Calculation
9	33.79	35.08	Rate Calculation	Rate Calculation
10	29.83	34.88	Historical Rate	Historical Rate
11	29.07	34.65	Calculation	Calculation
12	28.26	34.40	Rate Calculation	Rate Calculation
13	27.44	34.13	Historical Rate	Historical Rate
14	26.60	33.83	Calculation	Calculation

Richardton, 3.5% Int Rate

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	\$ 47.60	\$ 47.60	Estimate	Estimate
2	85.59	47.57	Calculation	Calculation
3	79.56	47.53	Rate Calculation	Rate Calculation
4	79.02	47.46	Historical Rate	Historical Rate
5	78.41	47.37	Calculation	Calculation
6	76.12	47.26	Rate Calculation	Rate Calculation
7	75.55	47.12	Historical Rate	Historical Rate
8	62.59	46.96	Calculation	Calculation
9	61.99	46.78	Rate Calculation	Rate Calculation
10	59.35	46.57	Historical Rate	Historical Rate
11	58.72	46.33	Calculation	Calculation
12	58.08	46.07	Rate Calculation	Rate Calculation
13	49.48	45.77	Historical Rate	Historical Rate
14	48.81	45.45	Calculation	Calculation
15	45.13	45.09	Rate Calculation	Rate Calculation

Miller Point, 3.0% Int Rate

Valley Senior

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	Estimate	Estimate	Estimate	Estimate
2	29.49	39.49	Calculation	Calculation
3	24.02	39.42	Rate Calculation	Rate Calculation
4	21.44	39.32	Historical Rate	Historical Rate
5	19.36	39.21	Calculation	Calculation
6	16.81	39.07	Rate Calculation	Rate Calculation
7	15.47	38.92	Historical Rate	Historical Rate
8	13.96	38.74	Calculation	Calculation
9	12.48	38.55	Rate Calculation	Rate Calculation
10	9.89	38.32	Historical Rate	Historical Rate
11	8.37	38.08	Calculation	Calculation
12	7.68	37.80	Rate Calculation	Rate Calculation
13	6.56	37.51	Historical Rate	Historical Rate
14	4.98	37.18	Calculation	Calculation
15	3.36	36.83	Rate Calculation	Rate Calculation

Valley Senior

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	Estimate	Estimate	Estimate	Estimate
2	40.24	54.16	Calculation	Calculation
3	40.11	52.98	Rate Calculation	Rate Calculation
4	39.95	50.95	Historical Rate	Historical Rate
5	39.77	46.01	Calculation	Calculation
6	41.42	44.75	Rate Calculation	Rate Calculation
7	37.23	43.27	Historical Rate	Historical Rate
8	31.29	42.05	Calculation	Calculation
9	38.81	39.90	Rate Calculation	Rate Calculation
10	38.50	35.06	Historical Rate	Historical Rate
11	25.68	33.72	Calculation	Calculation
12	24.21	32.28	Rate Calculation	Rate Calculation
13	22.66	30.78	Historical Rate	Historical Rate
14	21.04	29.11	Calculation	Calculation
15	19.33	26.90	Rate Calculation	Rate Calculation

Eventide

Year	Historical Rate	Fair Rental Value	Historical Rate	Fair Rental Value
1	Estimate	Estimate	Estimate	Estimate
2	86.10	86.10	Calculation	Calculation
3	85.59	85.59	Rate Calculation	Rate Calculation
4	79.56	79.02	Historical Rate	Historical Rate
5	78.41	78.41	Calculation	Calculation
6	76.12	76.12	Rate Calculation	Rate Calculation
7	75.55	75.55	Historical Rate	Historical Rate
8	62.59	62.59	Calculation	Calculation
9	61.99	61.99	Rate Calculation	Rate Calculation
10	59.35	59.35	Historical Rate	Historical Rate
11	58.72	58.72	Calculation	Calculation
12	58.08	58.08	Rate Calculation	Rate Calculation
13	49.48	49.48	Historical Rate	Historical Rate
14	48.81	48.81	Calculation	Calculation
15	45.13	45.09	Rate Calculation	Rate Calculation

Mckenzie County